DATA SNAPSHOT

RBA Board Minutes for the July Meeting

Tuesday, 21st July 2009

- The RBA board minutes for this month's monetary policy meeting adds to our view that the RBA has finished cutting rates.
- The flavour of the minutes suggests that the Board believes conditions are continuing to improve.
- We think the next move in rates will be up and that this move will occur by mid 2010.

The Reserve Bank (RBA) Minutes for the July meeting support our belief that the RBA is done cutting rates. The flavour of the minutes indicates that the Board believes global economic and financial conditions are continuing to improve.

On the world economy, the RBA acknowledged that the large downside risks to the global economy have subsided and there is further evidence that conditions are stabilising. Indeed, international institutions were tending to revise up their growth forecasts for next year. This adds weight to expectations for the global economy to return to growth next year. The RBA expects "subdued growth" in the next year or two.

The central bank continues to express confidence on the recovery underway in China (Australia's number one trading partner). In the minutes, it noted that, "the Chinese economy was growing quite robustly". In terms of Australia's other key export destinations, the RBA remarked that the US economy may be reaching a turning point, the recent data in Japan has been more encouraging than they had been for some time and an improvement has been evident in other parts of Asia as well.

Domestically, the central bank expects "a gradual recovery to begin later in the year". The RBA notes that downside risks to this forecast have diminished with the recent data suggesting that economic conditions were not as weak as had been earlier expected. Accordingly, we would not be surprised if the RBA raises its economic growth forecasts when it publishes its Statement on Monetary Policy next month.

Domestic exports in particular, have been surprisingly strong, due mostly to demand from China. The minutes stated that, "some mining companies and ports were reporting that they were again operating close to capacity". Housing also continues to remain a ray of light amid the gloom, with home loan approvals posting strong increases and house prices picking up. Both consumer and business confidence were also up strongly from their low points. In terms of the retail sector, the RBA's liaison with retailers suggests that the recent strength had continued in June.

One of the key risks to the domestic economic outlook remains the prospect of higher unemployment. But even on this front the RBA appeared more optimistic than revealed in previous published minutes. The RBA Board noted that while labour market conditions were likely to remain soft for some time "there were signs that employers were making efforts to minimise job shedding".

The RBA has maintained an easing bias by stating there is "some scope for some further easing of monetary policy, if that were to be needed to give further support to demand at a later stage. With uncertainty still high and the global economy still vulnerable, it's appropriate that the easing remains. Further, the inflation outlook allows the RBA to maintain the easing bias.

However, we do not think that further easing will be needed. As global sentiment and markets continue to improve, uncertainty should lessen together with the vulnerability. We are expecting the next move in rates to be up, and for this move to come before the end of June next year.

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